



BRIEFING: AUGUST 12, 2014, BOARD MEETING AGENDA ITEM #2

TO: Chairman Richard and Board Members

FROM: Jeff Morales, Chief Executive Officer

DATE: August 12, 2014

RE: Consider Providing General Direction to Staff Regarding the Expenditure of Appropriated Proceeds from the Cap and Trade Program

Background

On June 20, 2014, the Governor signed the 2014/2015 Budget Act (SB 852 & SB 862) which included an appropriation of proceeds from the state's Cap and Trade program to various programs and projects that will reduce greenhouse gas emissions (GHG) in furtherance and accordance with AB 32, the California Global Warming Solutions Act of 2006.

Specifically, SB 852 (Budget Act of 2014) appropriated \$872 million in Cap and Trade proceeds from the Greenhouse Gas Reduction Fund (GGRF) in Fiscal Year 2014-15 as follows:

Program	Cap and Trade Proceeds (Millions)
High Speed Rail Project	\$ 250
Transit and Intercity Rail Capital Program	\$ 25
Low Carbon Transit Operations Program	\$ 25
Affordable Housing and Sustainable Communities Program	\$ 130
Low Carbon Transportation	\$ 200
Energy Efficiency Upgrades/Weatherization	\$ 75
Agricultural Energy and Operational Efficiency	\$ 15
Energy Efficiency for Public Buildings	\$ 20
Water-Energy Efficiency (Previously Appropriated)	\$ 40
Wetlands and Watershed Restoration	\$ 25
Fire Prevention and Urban Forestry Projects	\$ 42
Waste Diversion	\$ 25
Total	\$ 872

There is also an additional \$400 million available to the Authority beginning in the 2015-2016 fiscal year.

These one-time appropriations are augmented by SB 862, known as the Cap-and-Trade Expenditure Plan (Plan), which established a programmatic structure for the continuous appropriation of annual Cap and Trade proceeds from the GGRF. The ongoing investments made by the Plan align with the investment areas identified by the California Air Resources Board's "Cap-and-Trade Auction Proceeds Investment Plan: Fiscal Years 2013-14/2015-16" to reduce greenhouse gas emissions that contribute to climate change and cut other forms of air pollution, particularly in disadvantaged communities. Beginning in Fiscal Year 2015-16, all future Cap and Trade proceeds will be appropriated as follows:

- 35% - Transit, Affordable Housing, and Sustainable Communities
 - 10% - Transit and Intercity Rail Capital Programs
 - A competitive grant program administered by the California Department of Transportation and the California Transportation Commission
 - Projects eligible for funding include: rail capital projects, such as rail cars and connectivity improvements to existing and future rail systems; intercity, commuter and urban rail projects that increase service levels, improve reliability and decrease travel time; rail integration; and Bus Rapid Transit and other bus transit investments.
 - 5% - Low Carbon Transportation Operations
 - Allocated through the State Transit Assistant formula to support new or expanded bus or rail services, or expanded intermodal transit facilities that reduce greenhouse gas emissions
 - 20% - Affordable Housing and Sustainable Communities
 - A competitive grant program administered by the Strategic Growth Council
 - Projects eligible for funding include: intermodal affordable housing projects; transit capital projects that support transit ridership; active transportation programs, such as bicycle and pedestrian programs; and transit-oriented development projects
- 25% - High-Speed Rail
 - Appropriated annually to the California High-Speed Rail Authority (Authority)
 - May be utilized for the initial operating segment and Phase 1 Blended System as described in the 2012 Business Plan. Eligible uses include: acquisition and construction costs of the project; environmental review and design costs of the project; other capital costs of the project; repayment of any loans made to the Authority to fund the project.
- 40% - Low Carbon Transportation, Energy, Natural Resources and Waste Diversion, Other Programs
 - Unallocated funding that will be appropriated annually in the budget or legislation for investment in programs that include low carbon transportation, energy efficiency and renewable energy, and natural resources and waste diversion.

It is the Authority's commitment and intent, in cooperation with regional transportation partners, to use these funds to accelerate reductions in greenhouse gas emissions (GHG) and put new emphasis on improvements in urban areas.

Discussion

With this new, stable funding stream the Authority is poised to advance the planning and construction of multiple segments of the high-speed trains system using several funding sources. Significantly, this presents the potential to move multiple segments forward concurrently resulting in a number of key benefits including: cost savings realized from accelerated schedules; nearer-term GHG reductions; and, improvements to existing rail systems that will benefit commuters in the near-term while ultimately paving the way for the statewide high-speed rail system.

Staff has specifically identified the Burbank to Palmdale project section as a key segment that could be accelerated by Cap and Trade proceeds as they become available. This strategy would allow the Authority to build from two directions simultaneously, thus accelerating delivery of the Initial Operating Segment. It also presents the opportunity to make the high-ridership Burbank to Palmdale corridor an operating segment of its own should it qualify as such. Finally, moving quickly on that segment could an earlier connection with the proposed XpressWest service from Las Vegas.

Other alternatives include using this new funding to move top priority projects forward, such as those outlined in the Authority's Memorandum of Understanding (MOU) with the Southern California Association of Governments (SCAG). These projects too would create GHG reductions in the short-term while improving regional rail service in preparation for high-speed rail.

This general direction was outlined in two letters submitted to the Legislature in the course of the budget process: one from Transportation Agency Secretary Brian Kelly addressed to State Senator Cathleen Galgiani; and one from Authority CEO Jeff Morales addressed to State Senator Fran Pavley. These letters are attached for your information.

Furthermore, these proposals are in line with the Authority's phased implementation strategy, wherein discreet useable segments are constructed as funding becomes available. This strategy has been implemented by virtually all international high-speed rail ventures including the Shinkansen in Japan and the TGV in France. Like those countries, the Authority envisions an implementation strategy in which a portion of the system is constructed and opened for revenue service while the balance of the system has yet to be constructed. This framework allows the Authority the flexibility to quickly capitalize on new funding sources (such as Cap and Trade) by accelerating certain segments that may be able to become operable sooner than others.

Recommendation

Staff recommends that the Board concurs with the proposed approach to utilizing Cap and Trade funding as outlined in CEO Morales' letter to State Senator Pavley. Specifically, the Board would endorse the prioritization of the Burbank to Palmdale corridor and other investments along the Palmdale to Los Angeles corridor as funding becomes available and in accordance with

provisions of the law. Staff will return to the Board with progress updates as well as specific recommended actions to further this goal.

Attachments

- Resolution #HSRA 14-19
- Letter from Secretary Kelly to Senator Galgiani
- Letter from CEO Morales to Senator Pavley